

# understanding investment funds

This factsheet provides an overview of investment funds.

## what are investment funds?

The majority of investors lack the time or experience to closely manage a portfolio of individual shares. Investment funds, combined with the 'know-how' of a financial adviser, can present a sound, individually tailored investment solution for such investors.

Investment funds offer the capability to achieve diversification across a range of assets by simply investing into one fund. This fund, under the active management of a fund

manager, pools together money from many investors to collectively invest in a selection of shares, bonds, cash or other financial instruments; ultimately providing a diversified investment.

Each investment fund has an objective outlining what it aims to achieve for its investors. This gives you the ability to choose funds that are appropriate to the level of risk you are prepared to take. The objectives can be found on the

fund factsheet or prospectus. It is the fund manager's job to create a portfolio that blends different types of shares, bonds and other financial instruments to achieve the objectives of the fund.

As with all investments of this nature, the most important thing to remember is that investment funds should be viewed as a long-term investment, meaning at least five years but preferably longer.

The innate diversification qualities of investment funds, combined with the 'know-how' of a financial adviser, can present a sound, individually tailored investment solution.

## types of investment funds

### Equity funds

Funds investing in a diversified portfolio of shares of different companies and industries, typically known as 'Equity Funds'.

Depending on the investment strategy, some may only invest in large companies and some only in medium-to-small companies. There are also funds that will only invest in particular sectors, such as Health and Telecommunications – offering a diversified investment into a particular industry.

### Bond funds

In general terms bond funds invest in a diversified portfolio of fixed-interest securities, for example, Government bonds and Corporate bonds (bonds issued by companies). The bonds held in the fund will give an income due to the interest (or coupons) paid out.

Funds that invest in Government bonds are generally considered to be less risky than funds investing in Corporate bonds. However, return rates are not guaranteed and can still go up as well as down.

### Balanced funds

Balanced funds have the advantage of investing in a mixture of assets, including both shares and bonds. It would be common for a balanced fund to have the majority of the portfolio invested in a mixture of these assets, with the remainder held in other classes such as property and cash. However, this varies depending on the objective of the fund.

It is important to be aware of the split between shares and bonds in order to fully understand the risks and potential rewards inherent within a particular fund.

### Specialist funds

Specialist funds invest in a specific sector of the economy. No matter which sector you are interested in investing in, the chances are there is a fund that invests in it. Examples of sectors include: Health; Telecommunications; IT and Technology; Property and Natural Resources.

### Global funds

A truly diverse portfolio should take advantage of global diversification opportunities.

Global funds offer a convenient solution to achieve a geographically diverse portfolio.

If you do not have any specific preferences of countries or regions to invest in, global funds are the easiest way of 'going global'.

### Emerging markets funds

An emerging market fund invests in developing countries that might potentially have very high economic growth. Examples are Brazil, India, Russia, Taiwan and China.

This high growth potential may be due to a number of factors, such as political and structural changes in the country, for example: privatisation; liberalisation of trade or better access to capital. The main risks, on the other hand, are political instability and volatile economic conditions. The financial markets in such countries can therefore fluctuate dramatically.

## risk and return

As with all investments, there is a degree of risk. Of course, investment funds can go down as well as up in value. It is important that you are comfortable with an investment fund's risk profile and

susceptibility for short-term volatility.

Additionally, you should consider 'currency risk' – a risk associated with funds investing in foreign assets. For example,

whilst an investment may have grown by 50%, you would be no better off selling the investment at a time when the local currency has halved in value against the investor's domestic currency.

## measuring performance

Performance figures are produced in the financial press and increasingly on the internet. These figures show cumulative performance for one year or even up to ten years.

The performance of a fund is often compared to a benchmark index and/or with sector average performance. A benchmark index is a target against which investment performance is measured. It is

used to determine the relative rate of increase/decrease. Sector averages denote the average performance of all funds within that particular sector.

The performance and subsequent sector rank of a fund is an indication of how good a fund is in comparison to funds with similar investment objectives, however, past performance is not a guide to future performance.

Investing in funds is a long-term investment and it is therefore more important to look for funds and fund managers that consistently outperform the sector average over a sustained period of time. Remember, a fund may outperform its sector but if the sector average is negative the actual return on the fund could also be negative.

# charges

Investors in a fund typically pay a fund management fee of between 0.5% and 2% a year. On top of this they will also pay the fund's 'additional expenses' such as costs relating to buying and selling underlying assets.

All these charges are combined to produce what is termed the Total Expense Ratio (TER), which is deducted from a fund's price on a daily basis rather than as an annual charge.

There may also be product charges if the fund is purchased within a life product wrapper.

## and finally...

There is no doubting that investment funds offer the potential for growth and a convenient way to diversify risk. However, with such a wide choice available, all with

varying performance, objectives and risk profiles, it's important to choose wisely.

To become adept at analysing investment funds and various

fund manager strategies, you must have a broad understanding of how investment works.

**A financial adviser will be able to recommend investment funds that are suitable for your individual needs and that best fit your specific risk profile.**

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This factsheet sets out the basics of investment funds. It is not designed to be investment advice and should not be interpreted as such. Other factors may need to be taken into account before making an investment decision. Your financial adviser will be able to offer you advice on this.

The value of investment funds may fall as well as rise. Past performance is not a guide to the future.

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